

BUDGET LETTER

	NUMBER: 02-20
SUBJECT: 2003-04 BUDGET POLICY	DATE ISSUED: July 31, 2002
REFERENCES: BL 02-05	SUPERSEDES: BL 01-23

TO: Agency Secretaries
Department Directors
Departmental Budget Officers
Departmental Accounting Officers
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

This Budget Letter (BL) sets forth the Governor's policy direction for preparation of his 2003-04 Budget. As a reminder, BL 02-05, issued March 27, 2002, outlines the technical and procedural requirements for preparation of the 2003-04 Budget. BL 02-05 describes the framework for the completion and submission of proposed baseline/current services departmental budgets.

A continued priority for this Administration is to limit the growth of government. The directives outlined here are part of a broad policy that the State must live within its available resources. The Department of Finance (Finance) is projecting some improvement in economic conditions in 2003-04. However, stock market-related incomes and revenues are expected to remain substantially below the levels of 2000-01. It is nearly certain that currently authorized expenditures and statutorily required expenditure adjustments will exceed available resources, barring additional corrective actions. Therefore, it is expected there will be no discretionary funds available from any fund source for new initiatives or program expansion. Agencies and departments should not submit requests for new programs or for expansion of existing programs. This includes information technology (IT) activities. During this time, the State needs to focus on only its most essential IT projects as well as the security of IT operations. **Budget Change Proposals to fund new initiatives or program expansions will not be reviewed, and will be returned to the requesting department or Agency. Budget Change Proposals to fund workload increases or costs of legislation must be accompanied by commensurate proposed reductions in other existing programs.**

During the preparation and enactment of the 2002-03 Budget, most departments contributed substantial savings that enabled the Administration to close a \$23.6 billion budget gap. Along with reductions to each Agency and department ranging from 5 percent to 25 percent proposed in the May Revision for State operations, discretionary programs, and lower priority programs, departments are currently identifying more than 6,000 vacant positions to be eliminated pursuant to legislative action on the budget. Departments are in the process of implementing these reductions and assessing the effects of the reductions on their ability to maintain the operation of existing programs.

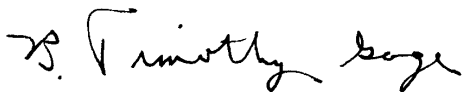
However, we anticipate the need to make further spending reductions in 2003-04 to bring ongoing expenditures in line with ongoing resources. **Consequently, Agencies and departments must be prepared to submit expenditure reduction plans similar to last year for both state operations and local assistance.** These reduction plans apply to General Fund and selected non-General funds (departments affected by these non-General funds will be separately notified by your Finance analyst).

The reductions already imposed on Agencies and departments for the 2002-03 fiscal year were significant, but did not require major restructuring of programs. It is expected that reductions for the 2003-04 Budget will be more complex, require the elimination of programs or layoff of employees, and require more lead time both for development and implementation. Acknowledging that significant programmatic impacts have been incurred pursuant to position reductions, prior unallocated reductions, and other budget reductions, Agencies and departments must propose specific reductions that incorporate one or more of the following: (1) the repeal of statutorily required activities or programs; (2) the elimination of discretionary programs; (3) program consolidation; (4) the reorganization of Agencies, departments, boards, commissions, and offices (proposed reorganizations that cross Agency jurisdictions must be submitted jointly by the affected Agencies); and (5) restructuring program responsibilities between the State and local governmental entities. Detailed instructions will be issued soon to formalize the reduction plan submission process.

Pursuant to Government Code Section 13308, Finance must provide to the Legislature on or before February 1 of each year, all proposed statutory changes, as prepared by the Legislative Counsel, necessary to implement the Governor's Budget. Therefore, all Budget Change Proposals that require statutory changes also must include a copy of the proposed legislation. Finance will submit the approved language to the Legislative Counsel.

The Government Code and Budget Act require the Governor's Budget development process to be as comprehensive as possible, and any subsequent adjustments may only be made to meet critical and unanticipated needs. Further, the January Budget is to include all policy proposals being made for the ensuing fiscal year. Spring Finance Letters, due to the Legislature no later than April 1, should be used only for (a) updating those proposals made in January or (b) submitting any new critical proposals that cannot be delayed until the upcoming fall budget process without serious consequences. The May Revision changes to the Governor's Budget are due to the Legislature no later than May 14 and will encompass only traditional enrollment, caseload, and population adjustments and any necessary budget balancing proposals.

If you have any questions, please contact your Finance budget analyst.

A handwritten signature in black ink, reading "B. Timothy Gage". The signature is written in a cursive, flowing style.

B. TIMOTHY GAGE
Director